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Trends in Seniors' Income and Pension Coverage in Atlantic Canada

Retirement income, from registered pensions plans or Registered Retirement Savings Plans (RRSPs), has increased eightfold in real terms over the last three decades. In 2007 (the most recent year for data) retirement income from these sources contributed one-third of seniors' income in Atlantic Canada, up from less than 10% in the late 1970s. Government programs, including the Canada Pension Plan (CPP), Old Age Supplement (OAS) and the Guaranteed Income Supplement (GIS), continue to provide the majority of income support to seniors in the Atlantic region, accounting for about half of seniors' income.

The income of seniors has risen dramatically relative to other age groups over the last few decades: the median family income of seniors now exceeds 66% of the income for all Atlantic families, up from 46% in 1977. In the 1980s, seniors' real family income in Atlantic Canada rose rapidly due to the rising value of government transfers, most notably from the CPP. Since 2003, real seniors' income in the Atlantic provinces has again increased strongly, driven by higher retirement income from market sources.

Future trends in seniors' income are less certain. More Canadian seniors are now working beyond 65 but pension coverage is continuing to decline. Last year's steep drop in equity markets reduced the value of pension assets and retirement savings, with a 35% decline in the value of Canadian equities. In response governments are now being encouraged to explore other ways to support the incomes of retirees, including expanding the coverage and benefits of public pension plans.

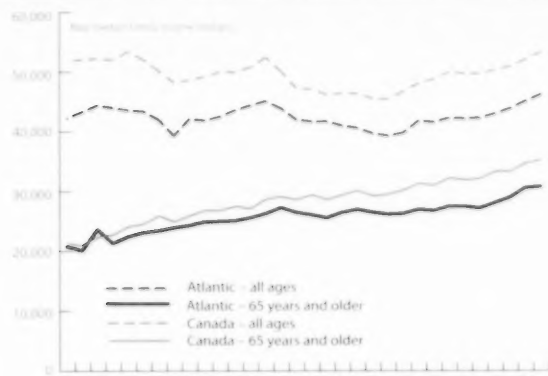
Changing Income Sources

There has been a sizeable shift in the sources of retirement income among Atlantic seniors. Since the early 1980s, retirement income from private sector pension plans and RRSPs has risen steadily, encouraging seniors to reduce their labour force participation by retiring earlier or switching to part-time work. As a consequence, the proportion of Atlantic Canadians in the labour force aged 65 years and older fell from 6.1% in 1979 to 3.5% in 2001. Employment earnings of Atlantic seniors in real terms have fallen by 35% since 1979, and now account for only 9% of total seniors' income.

Yet since 2001, labour force participation rates of those in the 65-69 age group in Atlantic Canada have increased sharply, suggesting that many individuals are now delaying full retirement. The labour force participation rate of this group in the Atlantic region has more than doubled, from 6.8% in 2001 to 15.6% in 2008. However, seniors are working fewer hours than younger workers. About 40% of employed seniors work part-time in Atlantic Canada, compared with 11% of workers aged 25-54.

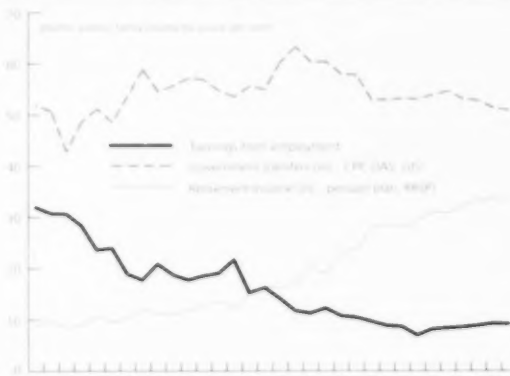
Although more Atlantic seniors are working, they continue to have a comparatively high dependence upon government transfers which currently provide 51% of their family income. Government transfers as a share of Atlantic seniors' family income have declined in relative importance from a peak of 63% in 1993, although they remain well above the national share of 41%. Seniors in Newfoundland and Labrador are the most reliant in the region on government transfers at 60% of family income. This greater

Rising Real Incomes for Seniors



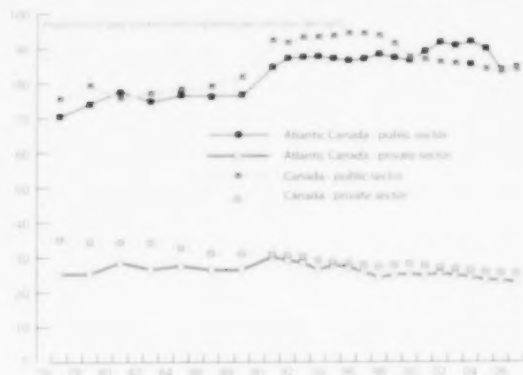
Source: Statistics Canada

Pension Income Increasingly Important for Atlantic Seniors



Source: Statistics Canada

Declining Private Sector Pension Coverage



Source: Statistics Canada, APEC

dependence reflects lower levels of market income in the Atlantic region. The OAS (which is taxable and clawed back at higher incomes) and the GIS (which is only paid to low-income seniors) represent a combined 27% of seniors' family income in the Atlantic provinces, compared with 20% nationally.

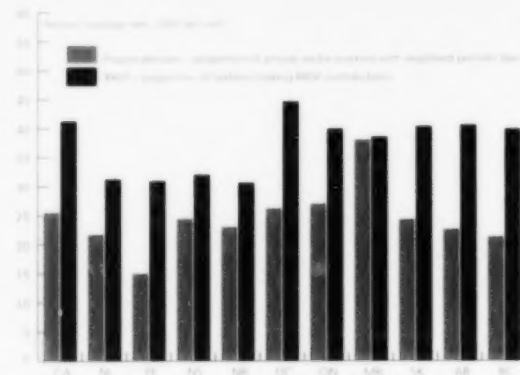
Declining Pension Coverage

Pension coverage in Atlantic Canada has declined over the last 15 years, from 48% of the paid workforce in 1992 to 40% in 2007, with a similar trend nationally. This decline largely reflects a drop in private sector coverage, falling from 29% in Atlantic Canada in 1992 to 23% in 2007. Coverage among public sector workers remains much higher, at about 84% in Atlantic Canada.

Pension coverage rates in the Atlantic provinces are generally lower than in Canada. Prince Edward Island has the lowest private sector coverage in the country at 15%. While Nova Scotia has the highest private sector coverage in the region at 24.4%, it is still below the national rate of 25.5%. Coverage rates in the public sector are also below the Canadian average in Prince Edward Island and New Brunswick.

In addition to the decline in pension coverage, there has been a shift in the type of pension coverage. The total number of Atlantic workers covered by a defined benefit plan has declined by 14% since 1991. Recent stock market declines have placed further pressure to shift away from defined benefit schemes, with many plans facing higher contributions from both employers and employees or a scaling back of benefits. For example, the four Atlantic governments

Atlantic Canadians Less Likely to Have Private Pension Assets



Source: Statistics Canada

have boosted their pension fund contributions by a combined \$800 million in the current fiscal year. Meanwhile the number of Atlantic workers with a defined contribution or hybrid scheme has grown rapidly. Such plans now account for 27% of workers with a registered pension plan, up from less than 5% in 1975 and noticeably higher than the national proportion of 23%. As the value of the pension benefits under a defined contribution scheme is less certain, this increases the risk that individuals will lack the pension income they expect.

Individuals can also save for their own retirement through a RRSP. However, fewer workers in Atlantic Canada – an estimated 32% – contribute to an RRSP, compared to 41% nationally. Average RRSP contributions are also quite small: the median RRSP contribution in the Atlantic region in 2007 was about \$2,200, compared with \$2,800 nationally.

Conclusion

Declines in Canadian and global stock markets in 2008 led to sharp reductions in the value of Canadian pension plans. Seniors are compensating for the drop in planned pension income by delaying full retirement. With declining private sector pension coverage and a continuing shift to defined contribution schemes, the risks to seniors' income are increasing. These risks are particularly important in the Atlantic region because it has an older and more rapidly aging population. Future consumer expenditures in Atlantic Canada are likely to be impacted as seniors moderate their spending while current workers look to boost their savings for retirement.

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